

# Rabobank Expects Continued Record-High US Cattle Prices

Rabobank

New York, NY — Rabobank has published a new report on the global beef industry, looking at issues of price, supply and demand in key markets around the world.

In the report, Rabobank's Food & Agribusiness Research team says that the global beef market will regain its positive momentum in Q3, once the current, temporarily high supply has worked through the system. This will likely support further strengthening of prices, as supply of competing animal proteins tighten.

The main wildcards for the start of these positive developments are rainfall in Australia, and to a lesser extent the continued drought in U.S. and Brazil, pushing more cattle through the system. Indonesian import development during the July Ramadan festivities, and Chinese imports towards the high season at the end of 2014, will also have unknown impacts. In addition, the relatively high prices might result in consumers trading down to pork and poultry.

"The continuing positive market fundamentals will be encouraging for producers' margins," explained Rabobank analyst Albert Vernooij. "However, longer term, the likely lower availability of feeder cattle and high production costs might limit the possible upside. For processors, the current stabilization gives them room to regain margins, but prospects are less positive due to the approaching tight supply in most producing regions."

### **Regional Outlooks:**

- **EU:** EU beef prices are expected to stabilize around the current levels into the summer, with some potential upside later in the year due to the combination of stable supply, continuing strong export demand and relatively high-priced competing proteins.
- **U.S.:** After exploding into all-time record price levels during Q1, the U.S. cattle and beef markets have subsided a bit during Q2. Going forward, seasonal price pressure is starting to weigh on the market along with expectations that more fed cattle will be making their way to market very soon. Feeder cattle and calf prices continue to push into new all-time record highs in the upper \$200 to mid-\$210 range.
- **Australia:** Total Australian cattle slaughter during the first four months of 2014 increased 12% year over year on the back of dry conditions. Boxed beef exports have, as a result, reached record levels throughout the first

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five months of 2014. Both the short and medium term outlook for supplies and prices is heavily dependent on rainfall.

- **Brazil:** In Q2 2014, the Brazilian beef market was tested by both the discovery of a new atypical case of BSE in Mato Grosso and the growth in production costs. While early reporting of BSE allowed Brazil to keep its 'insignificant risk' status, some international embargoes ensued. Strong exports remain however and Rabobank expects prices to recover in Q3 and Q4.
- **Canada:** Record price levels in the U.S. have been drawing a lot of Canadian cattle, and extreme winter weather has caused very expensive cattle maintenance and feeding conditions. As a result, year-to-date feeder cattle exports to the U.S. are currently running 44% above year ago levels, a pace simply not possible to continue and a sharp decline in shipments are expected in the second half of 2014.
- **Argentina:** A poor performance of exports continues to be the combined result of an uncompetitive exchange rate, a 15% export tax and the cumbersome process of obtaining export rights. Rabobank expects production to increase seasonally, while demand will weaken as a result of the generally recessive economic environment.
- **China:** China's beef imports reached 101,000 tonnes in the first four months of 2014, an increase of 34% year over year, but lower compared to the astonishing growth of 380% in 2013. Even with this volume, beef imports to China are historically very high.

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